

Volume No. 1—Policies and Procedures	<b>TOPIC NO.</b>	<b>20320</b>
Function No. 20000—General Accounting	<b>TOPIC</b>	<b>Information Returns Reporting</b>
Section No. 20300—Cash Disbursements Accounting	<b>DATE</b>	December 2005

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## Overview

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### Introduction

The Federal government requires payers of various types of payments to report those payments to the Internal Revenue Service (IRS) according to the tax year in which they were paid. State governments must comply with the IRS reporting requirements in the same manner as local governments and private industry. In addition, State agencies have special reporting requirements that are unique to their governmental functions such as the reporting of tax refunds, unemployment compensation, taxable grants, and agriculture payments.

This topic provides agencies and institutions with key compliance requirements and suggestions for the consistent application of the IRS Information Returns reporting requirements. Information Returns are used to report payments made to individuals, sole proprietors, partnerships, trusts, estates, foreign citizens, foreign companies, limited liability companies, medical and legal corporations. Payments that meet the prescribed reporting requirements and dollar thresholds established by the IRS are reported for the calendar year in which the services are paid. There are a number of publications, IRS Code sections, IRS regulations, income tax instructions, and IRS forms, which relate to the preparation and filing of Information Returns.

In addition to reporting payments, the IRS also has several withholding requirements, along with rules on how to solicit Taxpayer Identification Numbers (TIN).

The Department of Accounts (DOA) will inform agencies and institutions of changes in the IRS Information Reporting requirements by updating this topic in December of each year.

The latest version of this CAPP topic is available on the DOA web site:

<http://www.doa.virginia.gov>

Click on FINANCIAL REPORTING; click on 1099 INFORMATION.

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### Policy

DOA, in response to the IRS, requires each State agency to comply with Federal Information Returns reporting requirements.

Each State reporting entity (agency or group of agencies) should develop procedures for accumulating calendar year Information Returns data and preparing the appropriate information in the IRS acceptable media (paper, magnetic or electronically).

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## Overview, Continued

### General Requirements

Information Returns are:

- Required by the IRS for tax compliance auditing
- Filed under the reporting entity's Employer Identification Number (EIN), which is the same number used to file payroll returns
- Issued to individuals and other recipients as required by the IRS
- Issued for payments such as interest, dividends, certain government payments, and miscellaneous payments to be reported as income by the recipients
- Filed if payments reach the minimum dollar limits prescribed by the IRS for the calendar year
- Submitted to the IRS on magnetic media or electronically whenever 250 returns of any type of Information Returns are filed
- Depending on the day of the week that the deadline falls on, paper and magnetic media returns are issued annually to the recipients on or about January 31 following the calendar year being reported and filed with the IRS on or about February 28. **For tax year 2005, returns must be issued to recipients by January 31, 2006 and filed with the IRS by February 28, 2006.**
- **If the information returns are filed with the IRS electronically, they are due to the IRS by March 31, 2006.**
- Corrected according to IRS guidelines and regulations, and
- Supported by worksheets, Forms W-9, and other documentation required for audit purposes, including written agency procedures for recording reportable payments and processing Information Returns.

### Reporting Entity

A reporting entity is any agency or group of agencies, which files payroll and/or Information Returns under one unique TIN. The reporting entity is identified on Information Returns by payer name and the Employer Identification Number (EIN). The EIN is the same number as the one used by the reporting entity for payroll reporting. Reporting entities must include all reportable payments for the current year, which meet the IRS prescribed dollar thresholds for all reportable payee types.

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## What's New for Calendar Year 2005

### What's New

Since this list is not exhaustive, readers should check the general and form-specific instructions available at [www.irs.gov](http://www.irs.gov). Questions may be addressed directly to the IRS at [mccirp@irs.gov](mailto:mccirp@irs.gov), or by calling 866-455-7438.

- **Backup Withholding on the Form 1099-MISC may be exempt for certain Payment Card Transactions.** Certain Payment Card transactions may be exempt from backup withholding if the merchant/payee is reported by the Qualified Payment Card Agent (QPCA) as having a matching name/TIN combination. Not expected to be available in Virginia until 2006, this will help State government agencies and institutions when reporting Purchase Card payments for 2006. Details are covered in the 2005 Instructions for Box 4 of the 2005 Form 1099-MISC.
- **Merchant Category Codes will be helpful when reporting Payment Card Transactions on the Form 1099-MISC.** State government agencies and institutions making Purchas Card payments may rely on the Merchant Category Code (MCC) provided by the Payment Card Organization to help determine if the payment is 1099-MISC reportable. The MCC list is available on DOA's webpage at: [http://www.doa.virginia.gov/Payroll/Charge\\_Card/GE\\_Mastercard\\_Information\\_Main.cfm](http://www.doa.virginia.gov/Payroll/Charge_Card/GE_Mastercard_Information_Main.cfm)
- **Section 409A of the Internal Revenue Code, and new box 15a (Section 409A deferrals) and new box 15b (Section 409A income) on the Form 1099-MISC** address the reporting requirements for multi-year compensation to certain nonemployee service providers under nonqualified deferred compensation plans (NQDC) plans that are subject to the provisions of Section 409A. The amount included as income in box 15b is also includible in box 7 (Nonemployee compensation).
- **New box 5 on the Form 1099-G has been added for reporting Alternative Trade Adjustment Assistance (ATAA) payments** by State governments to workers who have had a decrease in wages or loss of jobs under the Alternative Trade Adjustment Assistance program. Beginning in 2005, these payments are to be reported on the Form 1099-G, not on the Form 1099-MISC as in previous years. In Virginia, this program is administered by the VEC.



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## Items You Should Note

### Penalty for Non-Scannable Forms

The Internal Revenue Service (IRS) has posted "information only" copies for Forms 1098 and 1099 on the IRS web-site with Copy A appearing similar to the scannable IRS form.

**Do not file this Copy A "information only" document with the IRS. You must file the Copy A scannable document version with the IRS.** To order official IRS scannable forms, you can call 1-800-TAX-FORMS (1-800-829-3676) or you can order online at [Forms and Publications By U.S. Mail](#).

A penalty of \$50 per information return may be imposed if you file paper forms that cannot be scanned.

### Reporting Backup Withholding (BWH) and BWH rate

If you backup withhold on a payment, you must file the appropriate Form 1099 or W-2G with the IRS, and furnish a statement to the recipient to report the amount of the payment and the amount withheld. This applies even though the amount of the payment may be below the normal threshold for filing Form 1099 or W-2G. The BWH rate for 2005 is 28%. See also (below) the requirements for reporting BWH on the Form 945.

### Form 945—Withholding Tax Return

Report backup withholding, voluntary withholding on certain government payments and withholding from gambling winnings, pensions, annuities, IRAs, military retirement, and Indian gaming profits on **Form 945, *Annual Return of Withheld Federal Income Tax***. Generally, file the Form 945 for 2005 by **January 31, 2006**. For more information, including the deposit requirements for **Form 945**, see the separate instructions for the **Form 945**, and **Pub. 15** (Circular E), Employer's Tax Guide.

### Use Form 1096 to Send Paper Forms to the IRS

Paper filers must send Copy A of all paper Forms 1099, 1998, 5498, and W-2G to the IRS with a separate Form 1096, Annual Summary and Transmittal of U.S. Information Returns, for each type of return filed.

### IRS Address Name Change Only

All information returns filed electronically or magnetically are processed at IRS. Enterprise Computing Center – Martinsburg (IRS/ECC-MTB), formerly IRS Martinsburg Computing Center (IRS/MCC). Note change in name only. Street address, phone numbers and e-mail address are unchanged.

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## Items You Should Note, Continued

### Filing Electronically using the FIRE System

The FIRE (Filing Information Returns Electronically) System is now on the Internet at <http://fire.irs.gov>. The FIRE System does not provide fill-in forms. Filers must program files according to the record layout specifications contained in this IRS Publication 1220, Specifications for Filing Forms 1098, 1099, 5498 and W-2G Electronically or Magnetically (Rev. 09-2005).

### Taxpayer Identification Number (TIN) Matching

Taxpayer Identification Number (TIN) matching allows a payer or authorized agent (e.g.: Purchase Card agent) who is required to file forms which report income subject to backup withholding to match TIN and name combinations with IRS records before submitting their forms to the IRS. TIN Matching is one the IRS e-services products that is available through the IRS website. Go to [www.irs.gov](http://www.irs.gov) and search for “e-services.” The IRS anticipates that payers who validate the TIN and name combinations of vendors and other payees before filing their information returns will receive fewer backup withholding (CP2100) “B” notices and penalty notices. E-services technical support is available by calling 1-866-255-0654, Monday through Friday, from 8:30 a.m. to 7:00 p. m. Eastern Time.

### List of Software Vendors

IRS/ECC-MTB prepares a list of vendors who support magnetic media or electronic filing.

The Vendor List (Pub. 1582) contains the names of vendors that will produce files on the prescribed types of magnetic media or via electronic filing. This list is compiled as a courtesy and in no way implies IRS approval or endorsement.

The Vendor List is updated periodically. The most recent version, revised 11-2005, is available on the internet at [www.irs.gov](http://www.irs.gov).

### IRS Assistance

The IRS operates a centralized call site to answer all types of questions about reporting information returns. You may contact them using the numbers & addresses in the Contacts Section at the end of this Topic.



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## Reportable Payees

### Reportable Payees

#### Payees may be:

1. Individuals (Nonemployees) A determination should be made prior to hiring an individual as to their employment status. Agencies must determine whether an individual should be classified as an employee and paid through the agency payroll or classified as a nonemployee and paid through the vendor payment process. Agencies should obtain a copy of Pub. 15 (Circular E), Employer's Tax Guide, and **Pub. 15A**, Employer's Supplemental Tax Guide, for guidance in determining employee/nonemployee status.
2. Sole proprietors (including doctors and attorneys)
3. Partnerships
4. Limited Liability Companies (for sole proprietors or partnerships)
5. Trusts or Estates
6. Medical and Healthcare Corporations (for services rendered)
7. Legal Corporations (Gross proceeds)

Most corporations are exempt from receiving information returns. However, medical and legal corporations must receive 1099-MISC returns for service payments totaling \$600.00 or more during the calendar year. When reporting payments to corporations on a Form 1099-MISC, list the corporation as the recipient rather than the individual providing the services.

### Taxpayer Identification Number (TIN) and the Form W-9

The Taxpayer Identification Number (TIN) is a nine digit number used to uniquely identify a taxpayer. Upon request, each taxpayer must provide the payer with his/her TIN, or be subject to backup withholding. Individual payees are to provide their social security numbers (SSN) for Information Returns Reporting purposes. Sole proprietors may provide either their EIN or SSN, although the IRS prefers that sole proprietors provide their SSN. All other taxpayers should provide an EIN. A **Form W-9, Request for Taxpayer Identification Number and Certification**, may be used to solicit this information. However, initial requests for TIN information may be made by telephone. **(Do not file a Form W-9 to other state agencies. State agencies are exempt from receiving information returns.)**

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## Reportable Payees, Continued

### Taxpayer Name

This is the name of the individual, sole proprietor (legal owner), or organization with which you are doing business. When producing Information Returns, the name of the recipient must match the name associated with the TIN. For sole proprietors, enter the individual's name on the first name line. On the second name line, enter the business name or enter the "doing business as (DBA) name" if provided.

### Taxpayer Address

The mailing address should be the business location address for the recipient of the Information Return. In most cases, this address will differ from the payment remittance address.

### Obtaining a Taxpayer Identification Number (TIN)/Exception for Foreign Vendors

With the implementation of the Comptroller's Debt Setoff program, DOA's 1099 Adjustment and Reporting System, and the Financial Electronic Data Interchange program, agencies are required to use the vendor's TIN for payment processing. An exception to this requirement is those transactions coded with the Taxpayer ID prefix of "F" for foreign vendors.

Agencies may use the Form W-9, or an acceptable Substitute Form W-9, to obtain 1099 reportable vendor's TIN, name, and address, and to certify that the vendor is not subject to backup withholding taxes. Initial requests for the TIN may be made verbally over the telephone. Agencies may use information on the taxpayer's letterhead or invoice to further substantiate that they are a corporation.

### Vendors Who Have Not Provided a TIN

Vendors, who have not provided their TIN, must be contacted by the agency immediately following the receipt of the invoice to obtain the required payment information. At that time, agencies should inform the vendor that their payment will be delayed pending the receipt of the vendor's TIN and will be subject to backup withholding. Agencies should further explain to the vendors the State and Federal statutory TIN reporting requirements (on the next page).

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## Reportable Payees, Continued

### State and Federal TIN Reporting Requirements

#### State Requirement

The Code of Virginia, Section 2.2-4354(2) requires contracts awarded by State agencies to include a special payment clause which directs individual contractors to provide their SSN, and sole proprietors, partnerships, and corporations to provide their EIN. Invoices for vendors who refuse to provide such information are considered in dispute under the provisions of the Prompt Payment Act.

#### Federal Requirement

The IRS requires vendors to provide their TIN. This information can be obtained on a Form W-9. If a reportable vendor does not provide an agency with a TIN, payments to that vendor **are** subject to backup withholding.



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## CARS 1099 Reportable Payments

### DOA Adjustment and Reporting System (ARS)

CAPP Topic No. 70805, *1099 Adjustment and Reporting System (ARS)*, explains how agencies sign up to participate in the ARS System.

Features of the 1099 Adjustment and Reporting System (ARS) include:

- Processing adjustment transactions to increase or decrease vendor payment balances without impacting the Commonwealth Accounting and Reporting System (CARS) financial files.
- Viewing on-line 1099 transactions and adjustments by Vendor ID, form type, and reporting box number.
- Accessing 1099 data through FINDS for use in printing information returns and generating magnetic media or filing electronically.
- Monthly and yearly reports on reportable and potentially reportable payments and adjustments.

### Calendar Year Reporting

Because the Commonwealth uses a July 1 - June 30 fiscal year basis for accounting and reporting, each reporting entity must develop its own methods for accumulating information for the January 1 - December 31 tax year/calendar year period. As a general rule, checks written or payments made on or before December 31 are included in the calendar year's 1099 reportable payment information. **If the payment due date was in December, the money is considered to be available to the recipient in that calendar year; therefore it is 1099 reportable in that calendar year.**

### Reminder: Do Not Provide Tax Advice!

A 1099 return is an “informational” document only, and that does not necessarily mean that the information reported to the taxpayer is subject to tax. Do not provide tax advice. The recipient of the information return, along with their accountant or tax advisor, must determine which portion, if any, of the income reported on Form 1099 is subject to tax.

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## CARS 1099 Reportable Payments, Continued

**Payment Dollar Limits to be Reported** IRS minimum reportable dollar limits for each type of payment to be reported on Information Returns must be identified. When a reportable payee's reportable payments reach the IRS dollar limits for the payment type, the payee is to receive an Information Return.

<b>Example 1:</b>	An individual (nonemployee) received \$50.00 in royalties during the calendar year and \$1,000.00 in nonemployee compensation. The minimum reporting amount for royalties is \$10.00. The minimum amount to be reported for nonemployee compensation is \$600.00. The 1099-MISC Return will be completed showing the royalty payment of \$50.00 and the nonemployee compensation paid of \$1,000.00.
<b>Example 2:</b>	The individual received \$550.00 in rents and \$1,200.00 in nonemployee compensation. The minimum reportable dollar limit for both rents and nonemployee compensation is \$600.00. The 1099-MISC Return will be completed showing \$1,200.00, nonemployee compensation. The rent payments of \$550.00 did not meet the \$600.00 dollar limit for reporting, and therefore do not need to be reported.

### **Identifying All Sources of Payments**

Agencies must develop procedures to identify all sources of reportable vendor payments including those made from these sources:

- Petty Cash funds (individual payees not recorded in CARS) – **see Note (1)**
- Stop payments. Agencies that stop payment on checks during a calendar year must establish procedures to reduce the amount reported to 1099 reportable vendors by the amount of the stop payment.
- Voided Checks. Agencies that void checks during a calendar year must establish procedures to reduce the amount reported to 1099 reportable vendors by the amount of the checks voided.
- Manual checks (Specials)
- Purchase Card payments, refer also to CAPP Topic No. 20355, *Purchasing Charge Card* (individual payees not recorded in CARS) – **see Note (2)**
- Garnishments for Nonemployees.

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## CARS 1099 Reportable Payments, Continued

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- Refunds from payees (Deposit Certificates)
  - Adjustments to correct the object code of expenditure or other data entry error adjustments – **see Note (3)**
  - Payments from funds not recorded in CARS
  - Debt setoff payment reductions
  - Backup withholding
- 

**Note (1):** Agencies that pay invoices using petty cash must establish procedures to accumulate 1099 reportable vendor payments incurred through the use of petty cash. If the payment amounts meet or exceed the IRS reportable amounts, the vendor should receive a Form 1099-MISC.

**Note (2):** Agencies participating in the Purchase Card Program should ensure that all eligible payments for all reportable vendors are reported on a Form 1099-MISC. See CAPP Topic No. 20355, *Purchasing Charge Card*. Purchase Card payments to individual vendors are not recorded in CARS because the payment is made to GE MasterCard, not to the individual vendors. Keep in mind that most of the time the Purchase Card payments are for materials and supplies which are not 1099 reportable. However, agencies should review their monthly GE MasterCard bills to see if the Purchase Card was used for services, which are reportable. When you have identified vendors from whom your agency purchased services, determine the vendor type, etc. and after receiving the information, enter the vendor information on the Vendor Edit Table.

**Note (3):** Other adjustments include decreasing a reportable payment by the amount for materials for payment of a bill that includes both materials and services.

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## CARS 1099 Reportable Payments, Continued

### Potentially-Reportable Object Codes

The Object Code Table (D16) in the Commonwealth's Accounting and Reporting System (CARS) is coded to assist agencies in reporting 1099 reportable payment transactions. DOA has identified those object codes, which are potentially subject to the IRS 1099 reporting requirements (See Attachment A at the end of this CAPP Topic – *1099 Potentially-Reportable Object Codes*), and assigned each reportable object code a 2-digit form type and reporting box number on the D16 Table.

Most object codes clearly identify the reportable services rendered by the vendor, such as object code 1241, Auditing Services. However, other object codes may be used to identify both reportable and non-reportable payments. For example, object code 1205, Seat Management Services, may be used to code payments for computer hardware and software through a single source contract including support services. Only the portion of the payment that pertains to services is reportable.

**The object code alone cannot be used to determine the reportability of the payment.** The vendor type (i.e., individual, sole proprietor, etc.) must also be considered.

### Vendor Edit Table Listing

Agencies can request a copy of the ACT940, *Vendor Table Listing*, from General Accounting, and verify that all potentially reportable vendors are properly coded for vendor type and Taxpayer Identification Number (EIN, SSN, or both).

Agencies should notify General Accounting at [gaact@doa.virginia.gov](mailto:gaact@doa.virginia.gov) or call (804) 225-2376.

### Vendor Types Must Agree

**Vendor types must agree with the EDI vendor edit table in CARS.** The DOA General Accounting Section maintains the EDI VE Table under Agency 000.

Agencies should contact General Accounting at [gaact@doa.virginia.gov](mailto:gaact@doa.virginia.gov) or call (804) 225-2376.



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## CARS Vendor Edit Table Maintenance Requirements

### Agency Access to the CARS Vendor Edit (VE)Table

#### Agency Requirements:

- Must have at least one individual in the agency with on-line update capability to the CARS Vendor Edit Table.
- Must submit an approved CARS Security Table Maintenance Form to General Accounting requesting user access to the Vendor Edit Table and DOA's 1099 Adjustment and Reporting System.
- Duties must be segregated between the individual who performs Vendor Edit Table maintenance and those who process payment transactions.

#### Agency/Control Agency Requirements (only applies to the Dept of Corrections):

Agencies who are designated by the Vendor File Indicator in the D09 Agency Table to retrieve vendor payment information from a control agency Vendor Edit Table must do the following:

- Obtain a separate CARS User ID from the Virginia Information Technologies Agency.
- Complete a CARS Security Table Maintenance Form requesting inquiry into the control agency's Vendor Edit Table.
- Forward form to the CARS Security Officer (CSO) at the control agency for approval.
- Upon approval by the control agency's CSO, forward the Security Table Maintenance Form to DOA, Table Maintenance/General Accounting.

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## CARS Vendor Edit Table Maintenance Requirements, Continued

**Data Elements** The CARS Vendor Edit Table includes the following data elements.

Data Element	Description																														
<b>Vendor Types</b>	<p>This one position field is used to denote the type of payee.</p> <table> <tr> <th>Value</th><th>Definition</th></tr> <tr> <td>0</td><td>Vendor Other e.g., a non-profit organization or tax-exempt charity under IRC §501 (c) (3)</td></tr> <tr> <td>1</td><td>State Employee</td></tr> <tr> <td>2</td><td>Federal Agency</td></tr> <tr> <td>3</td><td>State Government</td></tr> <tr> <td>4</td><td>Local Government</td></tr> <tr> <td>5</td><td>Political Subdivision</td></tr> <tr> <td>6</td><td>Non-Reportable Corporation</td></tr> <tr> <td><b>7</b></td><td><b>Sole Proprietors and Reportable Individuals</b></td></tr> <tr> <td><b>8</b></td><td><b>Reportable Corporation (medical and/or legal)</b></td></tr> <tr> <td>9</td><td>Non-Reportable Individual</td></tr> <tr> <td><b>A</b></td><td><b>Partnership</b></td></tr> <tr> <td><b>B</b></td><td><b>Estates</b></td></tr> <tr> <td><b>C</b></td><td><b>Trusts</b></td></tr> <tr> <td><b>D</b></td><td><b>Limited Liability Company</b></td></tr> </table>	Value	Definition	0	Vendor Other e.g., a non-profit organization or tax-exempt charity under IRC §501 (c) (3)	1	State Employee	2	Federal Agency	3	State Government	4	Local Government	5	Political Subdivision	6	Non-Reportable Corporation	<b>7</b>	<b>Sole Proprietors and Reportable Individuals</b>	<b>8</b>	<b>Reportable Corporation (medical and/or legal)</b>	9	Non-Reportable Individual	<b>A</b>	<b>Partnership</b>	<b>B</b>	<b>Estates</b>	<b>C</b>	<b>Trusts</b>	<b>D</b>	<b>Limited Liability Company</b>
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<b>D</b>	<b>Limited Liability Company</b>																														

**Reportable Vendor Types** **Note: Only Vendor types 7, 8, A, B, C, or D are 1099 reportable.** If the Vendor type is equal to 7 (Sole Proprietor) the individual owner's name is required. If the Vendor Type is equal A (Partnership), B (Estate), C (Trust), or D (Limited Liability Company) the legal name of the Partnership, Estate, Trust, or Limited Liability Company is required.

**1099 Mailing Address** This field is defined as the vendor's business mailing address and is not valid for foreign vendors. If the vendor's remittance address and the vendor's mailing address are the same, enter only the vendor's address in the remittance address field.

**Vendor Remittance Address** This field is defined as the business payment remittance address and is valid for foreign vendors.



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## Guidelines for Filing Information Returns

**Using an SSN** The chart below includes guidelines for filing information returns using a social security number (SSN).

<b>Vendor Type</b>	<b>Recipient</b>	<b>Enter SSN for</b>	<b>In the First Payee Name Line Enter</b>
7	Individual	Individual	Legal name of individual as on W-9
7	Sole Proprietor	Individual Owner	Legal name of individual owner as on W-9.
8	Medical or Legal Corporation	N/A	N/A
A	Partnership	N/A	N/A
B	Estate	N/A	N/A
C	Trust	Grantor-Trustee	Legal name of grantor-trustee as on W-9
D	LLC	See Page GEN-8 of IRS General Instructions	Depends on type of LLC.

**Using an EIN** The chart below includes guidelines for filing information returns using an employer identification number (EIN).

<b>Vendor Type</b>	<b>Recipient</b>	<b>Enter EIN for</b>	<b>In the First Payee Name Line Enter</b>
7	Individual	N/A	N/A
7	Sole Proprietor	Individual Owner	Legal name of individual owner as on W-9.
8	Medical or Legal Corporation	Medical Corp. or Legal Corp.	Legal name of medical or legal corporation as provided on W-9
A	Partnership	Partnership	Legal name of partnership as provided on W-9
B	Estate	Estate	Legal name of estate as provided on W-9
C	Trust	Grantor Trustee	Legal name of grantor-trustee as on W-9
D	LLC	See Page GEN-8 of IRS General Instructions	Depends on type of LLC.

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## Statewide Compliance Issues and References

### Employee vs. Independent Contractor

To determine whether an individual should be treated as an employee or an independent contractor, agencies should refer to Pub. 15 (Circular E), Employer's Tax Guide and Pub.15-A, Employer's Supplemental Tax Guide. Report payments to independent contractors on a Form 1099-MISC and payments to employees on a Form W-2. See Pub.15-A.

### Part-Time Workers

Generally, part-time workers are classified as employees and their wages are reported on a Form W-2. See Pub. 15-A.

### Employee/ Nonemployee

Employees receive a Form W-2 for calendar year amounts paid through the payroll system as employees.

Nonemployees receive a Form 1099-MISC for nonemployee compensation paid to them outside the payroll system.

Each agency must make a determination whether the individual is considered an employee or nonemployee. This distinction determines the type of statement to be issued to the individual at calendar-year end (W-2 v 1099). See Pub. 15-A.

### Foreign Persons

A foreign person includes a nonresident alien individual, a foreign corporation, a foreign partnership, a foreign trust, a foreign estate, and any other person that is not a U. S. person.

### Payments to Foreign Persons Are Subject to Withholding Except of Services Performed Outside the U.S.

Payments to foreign persons, regardless of the amount, are subject to withholding under Chapter 3 of the Internal Revenue Code (Title 26, United States Code, Chapter 3), including payments for interest, dividends, royalties, pensions, annuities, gambling winnings, and other compensation for personal services performed in the United States.

These types of payments should be reported on a Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding* by March 15th for payments made during the previous calendar year.

The place where the service is performed determines the source of the income. Payments for personal services performed by foreign persons outside the United States do not require either tax withholding or reporting on a Form 1042-S.

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## Statewide Compliance Issues and References, Continued

### Publications And Instructions Related to Payments to Foreign Citizens

IRS Publications and Instructions related to payments made to foreign citizens and foreign companies are:

- **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Entities (Rev. 01/05)
- **Pub. 519**, U.S. Tax Guide for Aliens (Last revised for Tax Year 2004)
- **Pub. 901**, U.S. Tax Treaties (Rev. 5/04)
- **Pub. 1187** (Rev. 11/04), Specifications for Filing Form 1042-S, Foreign Person's U. S. Source Income Subject to Withholding, Magnetically or Electronically.
- **Instructions for the Requester of Forms W-8BEN, W-8ECI, W-8EXP** (Rev. 8/03) and **W-8IMY** (Rev. 12/03)

### Tax Withholding For Foreign Persons and Entities

The IRS tax withholding and reporting requirements for payments to foreign persons and entities are explained in the Instructions for the Requester of Forms W-8 Series and the W-8 Form-specific instructions. Also, the requirements for withholding of tax on payments of U.S. source income to foreign persons can be obtained by calling the IRS at **(215) 516-2000**.

### Nonresident Alien

A nonresident alien is an individual who is not a U.S. citizen or a resident of the United States.

**Pub. 515**, Withholding of Tax for Nonresident Aliens and Foreign Entities, provides the criteria for determining if a person is a nonresident alien.

Nonresident alien individual, nonresident alien fiduciary, and foreign corporation with United States income, including income that is effectively connected with the conduct of a trade or business in the United States, must file a United States income tax return.

Nonresident aliens are taxed on income earned within the United States and such income is reported annually on a **Form 1042-S**.

Nonresident alien students, teachers, and researchers must use **Form 8233**, *Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual*, to claim exemption from withholding on compensation for services that are exempt from taxation under a U.S. tax treaty.



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### CIPPS Report 853, Non-Resident Alien Tax Report

Agencies, who use CIPPS to process payments for non-resident aliens, should use **CIPPS Report 853, Non-Resident Alien Tax Report** (Report Writer), to file Form 1042-S and Form 1042. To request a copy of Report 853, CIPPS agencies should contact DOA Payroll Operations at [payroll@doa.virginia.gov](mailto:payroll@doa.virginia.gov).

### Resident Alien

**Pub. 519**, U.S. Tax Guide for Aliens, provides the criteria for determining if a person is a resident alien or a nonresident alien. Amounts paid to residents of U.S. possessions and territories are not subject to reporting on a Form 1042-S if the beneficial owner of the income is a U.S. citizen, national or resident alien.

### Tax Reduction Rates for Foreign Citizens

Residents of certain foreign countries having tax treaties with the United States may be entitled to reduce rates or exemptions from tax under the applicable tax treaty. See also IRS Publications 515 and 901 for information related to this subject.

### Scholarships and Fellowship Grants

Scholarships and Fellowships paid to nonresident aliens are discussed in Pub. 519, U. S. Tax Guide for Aliens.

### Prizes and Awards - Nonemployee

Prizes and awards paid to nonemployees in excess of \$600 for the calendar year are reported on a Form 1099-MISC.

### Criminal Rewards and Fees

Rewards and fees paid to individuals, who provide information concerning criminal activity, are **not reportable** when paid by a governmental entity.

### Meals, Travel & Lodging Reimbursements—Employee

Do not use Form 1099 to report employee business expense (meals, travel and lodging) reimbursements.

Payments made to employees under a Nonaccountable plan are reported as wages on a **Form W-2**, but reimbursements made to state employees under an Accountable plan (as required by the Travel regulations) **are neither Form W-2 reportable nor Form 1099 reportable.**



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The latter is true even though state employee travel related reimbursements will show up on the monthly ACTR 3005, Potentially 1099 Reportable Transactions Report, because of the use of subobject of expenditure codes 1281, 1282, 1283, 1285 and 1286. These expenditure codes are listed as 1099 reportable object codes (See Exhibit A at the end of this CAPP Topic) to capture reportable non-employee travel reimbursements for which the nonemployee did not account to the payer (See next box).

### Meals, Lodging and Travel Reimbursements— Nonemployee

Reimbursements to nonemployees, such as consultants and contractors or job applicants, are covered under the IRS "Accountable Plan" guidelines. Amounts reimbursed under an "Accountable Plan" are not subject to Information Returns reporting.

However, if these are reimbursements for which the nonemployee did not account to the payer, they are 1099 reportable on a Form 1099-MISC (provided the total to the nonemployee of all fees and allowances is at least \$600). For a definition of accountable and non-accountable plans, see Chapter 13 of **Pub.535**, Business Expenses.

### Board and Commission Member Fees

The IRS has challenged the methodology that some Commonwealth entities have used in prior years to report payments to Commonwealth Board and Commission members. If your agency or institution is uncertain about the appropriate reporting mechanism, please contact the Office of the Attorney General or other appropriate legal counsel for guidance.

### Backup Withholdings

1099 Returns must reflect the gross amounts paid to reportable vendors.

Backup withholding amounts (federal taxes withheld from the total due and deposited with the federal government) are reported separately on the 1099 Returns in the box provided. The gross amount paid the individual is reported in the appropriate box on the appropriate 1099 return.

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## Statewide Compliance Issues and References, Continued

### Vendor Debt Setoff and Garnishment Payments

Vendor debt setoff payments and garnishments for nonemployees represent amounts paid by the State on behalf of the vendor for indebtedness. The gross amount paid to the vendor should be reported in box 7 of the Form 1099-MISC by the disbursing agency because it is taxable. The withheld amount should be reported in box 4 (federal) or box 16 (state).

### Charge Cards

Charge card expenses, such as the Purchase Card are subject to IRS 1099 reporting requirements when all of the following tests are met:

- The expenses are directly billed to the agency in accordance with the Purchase Card Program. (Note: Payments made by employees through the State sponsored travel charge card are not reportable.)
- The establishment is owned by an individual, sole proprietor, partnership, medical or legal corporation, limited liability company, trust, or estate.
- The amounts paid to the vendor exceed the prescribed IRS dollar-reporting threshold for the calendar year, and
- The Purchase Card expenses are for services only. Services are reportable, but supplies and materials are not. (Review the monthly GE MasterCard statement to determine the purpose of the purchases.)

If all of the above tests are met, the total amount paid for the calendar year should be reported on a 1099-MISC Form and in the box designated for nonemployee compensation.

Refer to CAPP Topic No. 20355, *Purchasing Charge Card*, for the information that should be included with Purchase Card transactions. Agencies can access the following GE MasterCard reports that will help identify 1099 reportable payments and reportable vendors:

1099 Merchants – YTD

1099 Merchants – Detail

To access these reports, e-mail the Charge Card Analyst at [cca@doa.virginia.gov](mailto:cca@doa.virginia.gov).

Agencies participating in ARS are responsible for adding 1099 reportable Purchase Card payments to the ARS 1099 reportable vendors when the \$600 annual threshold per reportable vendor is equaled or exceeded. See also CAPP Topic No. 70805, *1099 Adjustment and Reporting System (ARS)*.

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### State Vehicle Usage by Nonemployee

Nonemployees who use State vehicles for official State business are subject to the same rules and regulations as State employees. The use of State vehicles is not reportable on 1099 Returns.

### Medical Expenses and Payments

As stated in Section 6041 of the IRC, during the course of trade or business, payments made to physicians, dentists, medical suppliers, proprietary hospitals, laboratories, medical centers, and payments made under health, sickness, or accident insurance plans equal to, or in excess of \$600.00 for medical or healthcare expenses are to be reported on the **Form 1099-MISC**. However, do not report payments made to tax exempt or government owned hospitals (such as UVA Hospital), and do not report payments made under a health reimbursement or flexible arrangement defined in IRC Section 106C (2).

Medical and healthcare expenses are defined as drugs, injections, and other medical services provided by a physician, dentist, medical supplier, proprietary hospital, or medical center. List the legal name of the business providing the service as the recipient rather than the individual performing the service. Report medical expenses and payments using the EIN for the business. Payments to Veterinary Clinics and Animal Shelters that are incorporated are included in this reporting requirement. Additionally, if the Veterinarian is a sole proprietor, the services provided are subject to reporting on a FORM 1099-MISC.

### Military Pay Differential (Object of Expenditure Code 1132)

Payments made by employers to former employees who are actively serving in either the Armed Forces of the United States or the National Guard are not subject to income tax withholding, but they are subject to income tax. These payments are 1099 reportable in Box 7 of the Form 1099-M. They are not W-2 reportable.

### Exempt —Tax Status

Corporations, governmental agencies, nonprofit organizations, and entities that are tax exempt under § 501 (c) (3) of the IRC are not subject to IRS tax reporting.

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## Statewide Compliance Issues and References, Continued

### Materials and Services

Most vendors will separate the charges for goods and services on the vendor invoice. In the event the invoice does not separate the charges for goods and services, the vendor should be contacted to obtain the necessary information. **Services are 1099 reportable; supplies and materials are not.** However, if the charges for goods and services are purchased from a reportable vendor and the vendor does not separate the charges, then the total amount of the invoice can be considered reportable. DOA recommends that your procurement personnel require vendors to submit an invoice, which identifies the charges for goods and services separately. If this requirement is specified up front with the vendor, then invoices improperly billed can be considered in dispute under the Prompt Payment Act. Whenever parts and materials are purchased from a service oriented vendor, charges such as labor and delivery are considered as 1099 reportable.

### Gambling Winnings

The payer of certain types of gambling winnings must withhold 25% as Federal income taxes from the total proceeds for 2005. Proceeds are defined as the amount of winnings less the amount wagered. Refer to the IRS Instructions for the **Form W-2G**.

### Jury and Witness Payments

Jury and witness per diems or other fees constitute “other income” and are subject to reporting on a Form 1099-MISC if more than \$600 is paid in the calendar year. Travel expenses for jurors and witnesses are not subject to reporting if an adequate accounting for such expenses is made within a reasonable time and date in which they were incurred.

### Rental Payments

Rental assistance payments made by public housing agencies are subject to reporting if more than \$600 is paid in any calendar year to any one payee. If the recipient of the rental payment is a corporation, or a real-estate agent, no reporting is required.

### Unemployment Compensation

Payments for individual unemployment compensation under State unemployment compensation laws must be reported on Form 1099-G for the calendar year period. Payments under \$10 need not be reported.

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## Statewide Compliance Issues and References, Continued

### Income Tax Refunds

State authorities who impose a tax on income must report refunds, offsets, and credits made to taxpayers. Taxable income is defined as earned wages, interest, dividends, capital gains, and business profits. If the tax refund, offset, or credit applies to more than one tax year, then an Information Return must be filed for the amount refunded, offset, or credited for each year involved.

### Taxable Grant Payments

Report amounts of taxable grants of \$600 or more on the Form 1099-G. A Federal grant is normally considered taxable unless stated otherwise in the authorizing legislation. All types of corporations receiving taxable grants, not just medical and legal corporations, **are** considered by the IRS to be **1099-G reportable**.

Grants made by State agencies to subsidize energy financing projects to conserve or produce energy for residential property or "Section 38" property should be reported on a Form 1099-G. The purpose of this reporting is to ensure taxpayers claiming credit on their personal income tax returns for energy and reforestation payments did indeed receive such payments from a State agency. All payments for energy related grants should be reported regardless of the amount.

### Foreclosures and Abandonments

The IRS rules regarding the acquisition or abandonment of secured property are covered in the instructions for the **Form 1099-A, Acquisition or Abandonment of Secured Property**.

### Commissions Paid to Nonemployees Acting as Agents of the Commonwealth

Commissions of \$600 or more paid to nonemployees acting, as agents of the Commonwealth, are reportable on a **Form 1099-MISC** as nonemployee compensation. This includes commissions paid to licensing agents for the sale of game and fishing licenses and lottery ticket sales.

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## Statewide Compliance Issues and References, Continued

### Deceased Employee's Wages Paid to Estate or Beneficiary— Same Year as Death

#### Payments Made Within the Same Year of Employee's Death

Accrued wages, vacation pay, and other compensation paid to a deceased employee after the date of death, but within the same year the employee died, are subject to social security and Medicare taxes and should be reported on the employee's **Form W-2**. Report the amount paid in box 3, Social Security Wages, and box 5, Medicare Wages and Tips. The associated taxes should be reported in boxes 4 and 6 respectively. Under no circumstances should the accrued wages of a deceased employee be reported in box 1 on **Form W-2**. The accrued wages must be reported in Box 3 of the 1099-MISC that goes to the Estate of the deceased. A detailed example is shown on Page **MISC-2** of the **General Instruction for Forms 1099, etc.**

### Deceased Employee's Wages Paid to Estate or Beneficiary - After Year as Death

#### Payments Made After Year of Employee's Death

Accrued wages, vacation pay, and other compensation paid to a deceased employee after the date of death, but in a different year from which the employee died, are not subject to social security and Medicare taxes and should not be reported on a Form W-2. However, the employer would still file Form 1099-MISC.

Agencies should refer to IRS Instructions for Form W-2 for additional information on reporting deceased employee wages.

### Reporting Requirements for Payments Made to Estates and Beneficiaries

Payments of accrued wages, vacation pay, or other income made to estates and beneficiaries, regardless of whether the payment was made in the year of death or after the year of death, must be reported on a Form 1099-MISC. Report such payments in box 3, Other Income. Enter the name and TIN of the beneficiary or estate. If the beneficiary is an individual, enter their SSN and legal name. For estate payments, enter the name and EIN of the estate. The general back-up withholding rules apply.

However, payments of death benefits from non-qualified or qualified deferred compensation plans are not reportable on the Form 1099-MISC but are reportable on Form 1099-R.



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## TIN Compliance and Backup Withholding

### When Backup Withholding is Required

For Tax Year 2005, the IRS requires payers under certain circumstances to withhold at a rate of 28% for vendor payments as backup withholding taxes on payments of interest, rents, royalties, commissions, nonemployee compensation, and certain other payments.

Backup withholding is required when:

- A vendor fails to provide an agency or institution with their Taxpayer Identification Number (TIN).
- The IRS notifies the agency or institution that the TIN provided by the vendor is incorrect TIN on an IRS B Notice.
- The vendor fails to certify, under penalties of perjury, that the TIN provided is correct.
- The vendor fails to certify, under penalties of perjury, that they are not subject to backup withholding.

### Backup Withholding General Instructions

The General Instructions for Forms 1099, 1098, 5498 and W-2G and the Instructions for the Requester of Form W-9 for the current tax year determine the types of payments that are subject to, or exempt from, backup withholding.

### CP2100 – TIN/Name Unmatched Notices

The IRS issues CP2100 notices for all TIN/name combinations for which the IRS or SSA was unable to match to their internal databases. Commonly, the mismatch occurs because information returns are filed with missing or incorrect TINs. Agencies receiving notices may need to solicit another TIN

See Pub. 1281, Backup Withholding on Missing and Incorrect Name/TINs, Pub.1679, A Guide to Backup Withholding, and Pub.1586, Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TIN's.

- For information returns filed with a missing or incorrect TIN, a \$50 penalty may be assessed. This penalty may be reduced to \$15 if a correction is filed within 30 days of the required filing date and \$30 if a correction is made before August 1.

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## TIN Compliance and Backup Withholding, Continued

- The IRS mails CP2100 notice to the agency's "Address of Record" in September and October of each year following the previous tax year. A second set of notices are mailed in March of the following year. For most agencies, the "Address of Record" is the Payroll department and not the invoice processing section. Therefore, it is recommended that you periodically check with your agency's Payroll Department to ensure that your agency did not received a CP2100 notice. Also, you may call 1-866-455-7438 to find out from the IRS if pending CP2100 notices are on file for your agency.
- A CP2100 notice does not require the agency to prepare a written response to the IRS. However, other appropriate actions such as a W-9 solicitation or the processing of backup withholding taxes may be required.
- The most common error resulting in a CP2100 notice is when an agency submits an information return for a sole proprietor and the business name is listed on line 1. For sole proprietor filings, the sole proprietor's owner's personal name (e.g.: John Doe), and not the business name (e.g.: not "JD Plumbing"), must be listed on line 1 of the form to avoid a TIN/name combination mismatch.

### Agency Responses to IRS Backup Withholding Notices

#### First IRS "B Notice"

**Within 15 days after receiving an IRS B-Notice (Backup Withholding Notice), an agency or institution should send the vendor a new Form W-9 to complete.** A copy of the "B Notice" and the W-9 form should be sent to the vendor by first class mail, personal delivery, certified mail, or by any means assuring prompt delivery to the payee's last known address. Additionally, a pre-addressed, stamped envelope marked "**Important Tax Document Enclosed**" should accompany the "B Notice."

The vendor has 30 business days to respond to the "B-Notice" before backup withholding commences. During this 30 business day period, payments to the vendor should be suspended. Invoices subject to the Prompt Payment Act may be legitimately delayed and considered in dispute. If the vendor fails to provide the required information, begin backup withholding on the 31st business day. Withholding should continue until the vendor provides the agency or institution with the correct TIN on a Form W-9.

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## TIN Compliance and Backup Withholding, Continued

### 2-in-3 "B Notice" Rule

#### Second IRS "B Notice"

Agencies and institutions are required to monitor and track IRS "B Notices" for purposes of the IRS "2-in-3 Rule." Under this rule, records must be maintained to determine if two notices were received for the same TIN and vendor name within a three calendar year period. When this occurs, agencies and institutions are required to send a second notice to the vendor. Under these circumstances, the agency or institution must continue to backup withhold on all payments to the vendor until the IRS or SSA notifies the agency with a 147C letter or SSA Form 7028. Other documents such as a **Form W-9** are not sufficient to suspend withholding once a second "B Notice" is received.

### How to Process Backup Withholding Tax Payments

DOA recommends that vendor payments subject to backup withholding taxes should be processed as follows:

The payment must be separated into two transactions:

Step	Action
1	<p>Process two transactions to pay the vendor.</p> <ul style="list-style-type: none"> <li>The gross amount due the vendor, and</li> <li>Backup withholding taxes.</li> </ul> <p>Refer to CAPP Topic No. 20319, <i>Electronic Federal Tax Payments Processing</i>, for processing instructions.</p>
2	<p>Process transaction to a federal depository institution for the amount of backup withholding taxes. Refer to CAPP Topic No. 20319—<i>Electronic Federal Tax Payment Processing</i> for processing instructions.</p>

### Tax Reporting Requirements for Backup Withholding Taxes

#### Recording Backup Withholding Payments:

In order to properly record an agency's backup withholding tax liability, Form 945, *Annual Return of Withheld Federal Income Tax*, must be filed with the IRS at calendar year-end. Compliance procedures for processing Form 945, *Annual Report of Withheld Federal Taxes*, are in CAPP Topic 20319—*Electronic Federal Tax Payment Processing*.

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## **TIN Compliance and Backup Withholding, Continued**

### **IRS Penalties for Missing or Incorrect TINs**

IRS Penalty notices are automatically generated from the CP2100 notice and mailed to the agencies in December. Agencies have 45 days to respond to this notice by either paying the penalty assessment or writing to the IRS to request a waiver.

Agencies who have performed due diligence or can prove reasonable cause for erroneously filing information returns with missing or incorrect TINs, should submit a letter to the IRS requesting a penalty waiver. In most cases, a waiver will be granted.

Agencies should review Pub.1281, Backup Withholdings on Missing and Incorrect TINs, and Pub. 1586, Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TINS prior to requesting a penalty waiver.



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## Other States' Reporting Requirements

### Other States' Reporting Requirements

A number of states, as well as the District of Columbia, require Information Returns reporting for various types of non-payroll compensation and other miscellaneous income.

While the filing requirements and dollars reporting thresholds may vary the requirement to file a state return is generally contingent on the reporting requirements for the state in which the 1099 recipient (individual, sole proprietor, medical or legal corporation, partnership, trust, or estate) resides.

Each state's filing requirements are subject to change.

#### EXAMPLE:

A contractor residing in the District of Columbia performs services at George Mason University (GMU) in Fairfax, Virginia. The services were performed in Virginia which does not require an Information Returns filing. However, the contractor lives in the District of Columbia, which does require Information Returns filing. Under these circumstances, GMU should submit a copy of the information return to the District of Columbia, Department of Finance and Revenue, for the amount of income paid to the contractor (provided the amount was over the District of Columbia's dollar threshold for information returns reporting).

When you have reportable payments to out-of-state vendors, it is your responsibility to contact the respective states to obtain their latest information reporting requirements, threshold criteria, and mailing address.

To assist you in contacting the appropriate state agency in other states, a list of state web sites is provided below.

### IRS' Combined Federal/State Filing Program for Electronic & Magnetic Filers

30 States (including Virginia) and the IRS have authorized filers filing electronically or magnetically to participate in the IRS' Combined Federal/State filing (CF/CF) Program whereby the IRS will forward State copies of information returns to other participating States. Agencies planning to participate in the CF/CF Program must comply with the conditions set forth in Section 13 of IRS Publication 1220. Participating States are listed in Section 13 of IRS Publication 1220. This program is not available to paper filers.

### Virginia Does NOT Require Its Copy

Virginia does NOT require filers of information returns to send its copy to the Virginia Department of Taxation unless Virginia withholding taxes are reported.

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## Other States' Reporting Requirements, Continued

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<b>ARS Agencies Receive a Report of Payments by State</b>	Agencies participating in ARS should refer to the annual ACTB3040 report, Vendor Payments Subject to the Information Returns Reporting by State (distributed mid-January), when preparing their State information returns. This report summarizes all reportable payments for the tax year by vendor ID, form type, and State code.
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### State Taxing Agencies

State	State Name	State Taxing Department	State Web-Site
AL	Alabama	Dept. of Revenue	<a href="http://www.alabama.gov">www.alabama.gov</a>
AK	Alaska	Dept. of Revenue	<a href="http://www.alaska.gov">www.alaska.gov</a>
AZ	Arizona	Dept. of Revenue	<a href="http://www.az.gov">www.az.gov</a>
AR	Arkansas	Dept. Finance & Admin.	<a href="http://www.arkansas.gov">www.arkansas.gov</a>
CA	California	Franchise Tax Board	<a href="http://www.ca.gov">www.ca.gov</a>
CO	Colorado	Dept. of Revenue	<a href="http://www.colorado.gov">www.colorado.gov</a>
CT	Connecticut	Dept. of Revenue Services	<a href="http://www.ct.gov">www.ct.gov</a>
DE	Delaware	Div. of Revenue	<a href="http://www.delaware.gov">www.delaware.gov</a>
DC	District of Columbia	Office of Tax & Rev.	<a href="http://www.dc.gov">www.dc.gov</a>
FL	Florida	Dept. of Revenue	<a href="http://www.myflorida.com">www.myflorida.com</a>
GA	Georgia	Dept. of Revenue	<a href="http://www.ga.gov">www.ga.gov</a>
HI	Hawaii	Dept. of Taxation	<a href="http://www.hawaii.gov">www.hawaii.gov</a>
ID	Idaho	State Tax Commission	<a href="http://www.idaho.gov">www.idaho.gov</a>
IL	Illinois	Dept. of Revenue	<a href="http://www.il.gov">www.il.gov</a>
IN	Indiana	Dept. of Revenue	<a href="http://www.in.gov">www.in.gov</a>
IA	Iowa	Dept. of Rev. & Finance	<a href="http://www.ia.gov">www.ia.gov</a>
KS	Kansas	Dept. of Revenue	<a href="http://www.ks.gov">www.ks.gov</a>
KY	Kentucky	Revenue Cabinet	<a href="http://www.kentucky.gov">www.kentucky.gov</a>
LA	Louisiana	Dept. of Revenue & Taxation	<a href="http://www.la.gov">www.la.gov</a>
ME	Maine	Revenue Services	<a href="http://www.me.gov">www.me.gov</a>
MD	Maryland	Comptroller of Treasury	<a href="http://www.md.gov">www.md.gov</a>
MA	Massachusetts	Dept. of Revenue	<a href="http://www.ma.gov">www.ma.gov</a>
MI	Michigan	Bureau of Revenue	<a href="http://www.mi.gov">www.mi.gov</a>
MN	Minnesota	Dept. of Revenue	<a href="http://www.mn.gov">www.mn.gov</a>
MS	Mississippi	State Tax Commission	<a href="http://www.ms.gov">www.ms.gov</a>
MO	Missouri	Dept. of Revenue	<a href="http://www.mo.gov">www.mo.gov</a>
MT	Montana	Dept. of Revenue	<a href="http://www.mt.gov">www.mt.gov</a>
NE	Nebraska	Dept. of Revenue	<a href="http://www.ne.gov">www.ne.gov</a>
NV	Nevada	Dept. of Taxation	<a href="http://www.nv.gov">www.nv.gov</a>
NH	New Hampshire	Dept. of Revenue Admin.	<a href="http://www.nh.gov">www.nh.gov</a>
NJ	New Jersey	Div. of Taxation	<a href="http://www.nj.gov">www.nj.gov</a>
NM	New Mexico	Dept. of Taxation & Rev.	<a href="http://www.state.nm.us">www.state.nm.us</a>
NY	New York	Dept. of Taxation and Finance	<a href="http://www.state.ny.us">www.state.ny.us</a>
NC	North Carolina	Dept. of Revenue	<a href="http://www.nc.gov">www.nc.gov</a>
ND	North Dakota	State Tax Commissioner.	<a href="http://www.nd.gov">www.nd.gov</a>
OH	Ohio	Dept. of Taxation	<a href="http://www.oh.gov">www.oh.gov</a>
OK	Oklahoma	Tax Commission	<a href="http://www.ok.gov">www.ok.gov</a>
OR	Oregon	Dept. of Revenue	<a href="http://www.oregon.gov">www.oregon.gov</a>
PA	Pennsylvania	Dept. of Revenue	<a href="http://www.state.pa.us">www.state.pa.us</a>
RI	Rhode Island	Dept. of Administration	<a href="http://www.ri.gov">www.ri.gov</a>
SC	South Carolina	Dept. of Revenue	<a href="http://www.mysc.gov">www.mysc.gov</a>
SD	South Dakota	Dept. of Revenue	<a href="http://www.sd.gov">www.sd.gov</a>
TN	Tennessee	Dept. of Revenue	<a href="http://www.tn.gov">www.tn.gov</a>
TX	Texas	Comptroller of Public Accounts	<a href="http://www.tx.gov">www.tx.gov</a>
UT	Utah	State Tax Commission	<a href="http://www.utah.gov">www.utah.gov</a>
VT	Vermont	Dept. of Taxes	<a href="http://www.vt.gov">www.vt.gov</a>
VA	Virginia	Dept. of Taxation	<a href="http://www.virginia.gov">www.virginia.gov</a>
WA	Washington	Dept. of Revenue	<a href="http://www.wa.gov">www.wa.gov</a>
WV	West Virginia	Dept. of Tax & Revenue	<a href="http://www.wv.gov">www.wv.gov</a>
WI	Wisconsin	Dept. of Revenue	<a href="http://www.wisconsin.gov">www.wisconsin.gov</a>
WY	Wyoming	Dept. of Revenue	<a href="http://www.wy.gov">www.wy.gov</a>



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## Correcting 1099 Returns

### Correcting Magnetic Media &/or Electronic Information Returns

For guidance in making corrections to magnetic/electronic returns, see Part A, Section 11 of Pub.1220.

- Corrections should only be made to records that have been submitted incorrectly, not the entire file.
- A correction should not be confused with a replacement. Only media that is returned to the filer by IRS/ECC-MTB due to processing problems should be marked replacement.
- Magnetic media/electronic filing is required for 250 or more corrected 1099 Returns per type of return.
- If you do not file corrections, and cannot obtain an exception, the penalty is \$50 per information return.

### Correcting Paper Information Returns

The guidance for correcting paper returns is provided on Pages GEN-11, 12 and 13 of the General Instructions for Forms 1099, 1098, 5498, and W-2G.

### 1099 Common Errors and Filing Reminders

Errors common to filing paper information returns, and filing reminders, are contained in Page Gen-6 of the 2005 General Instructions for Forms 1099, 1098, 5498 and W-2G.

Common errors in filing magnetic media or electronic returns are discussed Pub. 1220.



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## IRS Penalty Assessments

### Penalty Assessments Generally

If an agency fails to provide correct and timely payee statements and cannot show reasonable cause it may be assessed a penalty, for reasons including:

- 1099 Information Returns to the recipients and/or the IRS are not issued by the required due dates
- Incomplete/inaccurate 1099 Information Returns and/or corrected Information Returns are issued.
- Failure to file using Magnetic Media/electronically (when required). If you are required to file via magnetic media but fail to do so, and you do not have an approved waiver Form 8508 on record at the IRS, you may be subject to a penalty unless you establish reasonable cause.

#### **Penalties are assessed as follows:**

- \$15 per return if you correctly file within 30 days (by March 30 if the due date is February 28) maximum penalty \$75,000 per year.
- \$30 per return if you correctly file by August 1; maximum penalty \$150,000 per year.
- \$50 per return if you file after August 1 or you do not file required information returns; maximum penalty is \$250,000.
- Intentional disregard of filing requirements may result in at least \$100 per payee with no maximum dollar penalty.
- Exceptions to the penalties are explained on Page GEN-4 of the 2005 IRS General Instructions.

## Records Retention

### 1099 Record Retention Period

Agencies are required to keep copies of Information Returns and supporting documentation for at least 3 years from the due date of filing the returns with the IRS, and at least 4 years if backup withholding was imposed.



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## Contacts

### Internal Revenue Service Contacts

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- IRS Office of Federal, State and Local Governments (FSLG), Government Entities Division. Primary Contact: Liz Grant at (215) 861-1497.
  - *IRS-Enterprise Computing Center – Martinsburg (IRS/ECC-MTB)*
  - Formerly called the IRS Martinsburg Computing Center (IRS/MCC))
  - Hours: 8:30 a.m. to 4:30 p.m. (Monday through Friday Eastern time)
  - Toll free Number: 1-866- 455-7438
  - Direct Number (not toll free): 1-304-263-8700
  - FAX for Applications & Waiver Requests: 1-304-264-5602
  - Telecommunications Device for the Deaf (TDD): 1-304-267-3367
  - E-mail to [mccirp@irs.gov](mailto:mccirp@irs.gov). Please do not include SSN's or EIN's on e-mails since this is not a secure line. Allow 10 days to receive a response by E-mail.
  - Call **(215) 516-2000** for questions relating to the **Form 1042-S, Foreign Person's U. S. Source Income Subject to Withholding**.
  - The IRS encourages payers with Internet access to browse the IRS home page for timely filing information and to download publications and forms.
  - The IRS Internet address is [www.irs.gov](http://www.irs.gov)
  - **Caution:** Because the IRS processes paper forms by machines with special optical character recognition equipment, you cannot file with the IRS the IRS Form 1096 or Copy A of Forms 1098, 1099, or 5498 that you print from the IRS Web Site or the CD-ROM.
  - For forms and publications, call 1-800-TAX-FORM (1-800- 829-3676).
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## Contacts, Continued

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**DOA Contacts**    **Database Administration** should be contacted at (804) 225-3088 (FINDS Support Help Desk) or email at [dba@doa.virginia.gov](mailto:dba@doa.virginia.gov) for Financial Information Downloading System (FINDS) information and assistance.

**Payroll**-related questions should be addressed to the Director of Payroll Operations by e-mail at [payroll@doa.virginia.gov](mailto:payroll@doa.virginia.gov).

**All other questions** should be addressed to (804) 371-7808 or by E-mail at [nick.whitby@doa.virginia.gov](mailto:nick.whitby@doa.virginia.gov) or [1099@doa.virginia.gov](mailto:1099@doa.virginia.gov)

For the latest 1099 changes, click on the *Financial Reporting* button, then click on the *1099 Information* button on the DOA web site at: <http://www.doa.virginia.gov>.

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## Subject Cross References

### Cross References

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CAPP Topic No. 20310—*Expenditures*  
CAPP Topic No. 20319—*Electronic Federal Tax Payment Processing*  
CAPP Topic No. 20330—*Petty Cash*  
CAPP Topic No. 20355—*Purchase Charge Card*  
CAPP Topic No. 50515—*Special Payments*  
CAPP Topic No. 60108—*Expenditure Codes*  
CAPP Topic No. 60111—*Vendor Edit Table*  
CAPP Topic No. 60112—*Table Maintenance*  
CAPP Topic No. 70705—*FINDS: CARS and 1099 Downloading*  
CAPP Topic No. 70805—*1099 Adjustment and Reporting System (ARS)*

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## Attachment A—1099 Potentially Reportable Object Codes

### Codes

The following table presents 1099 Potentially Reportable Object Codes.

<b>POTENTIALLY REPORTABLE OBJECT CODES</b>			
The following have been identified as potentially 1099 reportable object codes. However, the decision to code a payment as reportable must be based on the specific reporting requirements for the commodity or service and the vendor type.			
<b>CODE</b>	<b>OBJECT CODE TITLE</b>	<b>RESTRICTIONS FOR 1099 REPORTING</b>	<b>TYPE OF 1099 (Box Number)</b>
1132	Salaries, Armed Forces Pay Differential		1099-MISC (07)
1134	Specified per Diem Payments		1099-MISC (07)
1135	Wages & Allowance		1099-MISC (07)
1136	Work Programs		1099-G (06)
1139	Special Payments for Academic Services		1099-MISC (07)
1205	Seat Management Services	<i>Services Portion only</i>	1099-MISC (07)
1209	Charge Card Purchases for Contractual Services	<i>See Note (2) in Section on 1099 Reportable Payments, Identifying All Sources of Payments</i>	1099-MISC (07)
1211	Express Services		1099-MISC (07)
1212	Outbound Freight		1099-MISC (07)
1213	Messenger Services		1099-MISC (07)
1214	Postal Services		1099-MISC (07)
1215	Printing Services		1099-MISC (07)
1217	Telecommunications Services (Non-State)		1099-MISC (07)
1219	Inbound Freight Services		1099-MISC (07)
1224	Employee Training Courses, Workshops, and Conferences	<i>Reportable vendors only</i>	1099-MISC (07)
1226	Employee Training Consulting Services		1099-MISC (07)
1228	Employee Information Technology Training Courses	<i>Reportable vendors only</i>	1099-MISC (07)
1231	Clinic Services		1099-MISC (06)
1232	Dental Services		1099-MISC (06)
1233	Hospital Services		1099-MISC (06)
1234	Medical Services		1099-MISC (06)
1235	Nursing Home Services		1099-MISC (06)
1236	X-Ray & Laboratory Services		1099-MISC (06)
1238	Other Medical Services	DPB must authorize use of this code.	1099-MISC (06)
1241	Auditing Services		1099-MISC (07)
1242	Fiscal Services	Not for Incorporated Banks	1099-MISC (07)
1243	Attorney Services		1099-MISC (07)
1244	Management Services		1099-MISC (07)
1245	Personnel Management Services		1099-MISC (07)
1246	Public Info. & Pub. Rel. Services		1099-MISC (07)
1247	Legal Services	Other than attorneys fees.	1099-MISC (07)
1248	Media Services		1099-MISC (07)
1251	Custodial Services		1099-MISC (07)
1252	Elect. Rep. & Maint. Services		1099-MISC (07)
1253	Equip. Repair & Maint. Services		1099-MISC (07)
1254	Exterminator-Vector Control Services		1099-MISC (07)



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## Attachment A- 1099 Potentially Reportable Object Codes, Continued

<b>CODE</b>	<b>OBJECT CODE TITLE</b>	<b>RESTRICTIONS FOR 1099 REPORTING</b>	<b>TYPE OF 1099 (Box Number)</b>
1255	Highway Repair & Maint. Services		1099-MISC (07)
1256	Mechanical Rep. & Maint. Services		1099-MISC (07)
1257	Plant Repair & Maint. Services		1099-MISC (07)
1258	Reclamation Services		1099-G (06)
1259	Vehicle Rep. & Maint. Services		1099-MISC (07)
1261	Architectural & Eng. Services		1099-MISC (07)
1262	Aviation Services		1099-MISC (07)
1263	Clerical Services		1099-MISC (07)
1264	Food & Dietary Services		1099-MISC (07)
1265	Laundry & Linen Services		1099-MISC (07)
1266	Manual Labor Services		1099-MISC (07)
1267	Production Services		1099-MISC (07)
1268	Skilled Services		1099-MISC (07)
1272 (old)	Info. Mgmt. Design Dev Services (non-state)	<i>This expenditure code not used after 7/04. For reportable vendors only</i>	1099-MISC (07)
1272 (new)	VITA integration costs	<i>Effective 7/1/04—Not 1099 reportable</i>	
1273 (old)	Information Management Design Dev Services (State)	<i>This expenditure code not used after 7/04. Not 1099 Reportable</i>	
1273 (new)	Information Management Design Dev Services (State, other than VITA, & vendors)	<i>Effective 7/1/04--For reportable vendors only</i>	1099-MISC (07)
1274	Computer Hardware Maintenance Services	<i>For Reportable vendors only</i>	1099-MISC (07)
1275	Computer Software Maintenance Services	<i>For Reportable vendors only</i>	1099-MISC (07)
1277	Computer operating Services (non-state)	<i>For Reportable vendors only</i>	1099-MISC (07)
1279	Computer Software	For Services only, like tailor-made software	1099-MISC (07)
1281	Moving & Relocation Services	Exclude state employee reimbursements	1099-MISC (07)
1282	Travel, Personal Vehicle	Exclude state employee reimbursements	1099-MISC (07)
1283	Travel, Public Carriers	Exclude state employee reimbursements	1099-MISC (07)
1285	Travel, Subsistence & Lodging	Exclude state employee reimbursements	1099-MISC (07)
1286	Travel, Supplements & Aid	Exclude state employee reimbursements	1099-MISC (07)
1297	Late Pmt Penalties for Contractual Services	For pmts that are 1099-Reportable	1099-MISC (07)
1397	Late Pmt Penalties for Suppl. & Mat'ls	For pmts that are 1099-Reportable	1099-MISC (07)
1411	Individual Claims & Settlements	Not reportable for criminal info. Comp.	1099-MISC (03)
1413	Premiums		1099-MISC (07)
1414	Unemployment Comp. Awards	Only pmts to individuals (e.g. paid by VEC)	1099-G (01)
1417	Income Assistance Programs		1099-MISC (07)
1418	Incentives		1099-MISC (03)
1423	Tuition and Training Aids	<i>Reportable vendors only</i>	1099-MISC (07)
1442	Payments to Individuals on behalf of local gov't.	Taxable Grants only	1099-G (06)
1452	Grants to Non Gov. Org.	<i>For taxable grants to reportable recipients</i>	1099-G (06)
1456	Disaster Recovery Grants to Non Gov. Org.	<i>For taxable grants to reportable recipients</i>	1099-G (06)
1465	Consulting Cost/Local Programs		1099-MISC (07)
1509	Charge Card Purchases for Continuous Charges	<i>See Note (2) in Section on 1099 Reportable Payments, Identifying All Sources of Payments</i>	1099-MISC (07)
1521	Computer Peripheral Capital Leases	Excluding maint Services-report in Box 7	1099-MISC (01)
1522	Comp. Central Processor Cap Leases	Excluding maint Services-report in Box 7	1099-MISC (01)
1523	Computer Software Capital Leases		1099-MISC (01)
1524	Equipment Capital Leases	Excluding maint Services-report in Box 7	1099-MISC (01)



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## Attachment A- 1099 Potentially Reportable Object Codes, Continued

<b>CODE</b>	<b>OBJECT CODE TITLE</b>	<b>RESTRICTIONS FOR 1099 REPORTING</b>	<b>TYPE OF 1099 (Box Number)</b>
1525	Building Capital Leases	Only pmts for office rent	1099-MISC (01)
1526	Land Capital Leases		1099-MISC (01)
1527	Land & Building Capital Leases	Only pmts for office rent	1099-MISC (01)
1531	Computer Peripheral Rentals	Excluding maint Services-report in Box 7	1099-MISC (01)
1532	Computer Processor Rentals	Excluding maint Services-report in Box 7	1099-MISC (01)
1533	Computer Software Rentals		1099-MISC (01)
1534	Equipment Rentals	Excluding maint Services-report in Box 7	1099-MISC (01)
1535	Building Rentals	Only pmts for office rent	1099-MISC (01)
1536	Land Rentals		1099-MISC (01)
1537	Land & Building Rentals	Only pmts for office rent	1099-MISC (01)
1542	Electrical Services Charges		1099-MISC (07)
1543	Refuse Services Charges		1099-MISC (07)
1544	Water & Sewer Services Charges		1099-MISC (07)
1547	Private Vendor Service Charges	Includes expenditures to vendors for eVa service charges [Eff. 10-1-04]	1099-MISC (07)
1597	Late Pmt. Penalties for Cont. Charges	For pmts that are 1099-Reportable	1099-MISC (07)
2111	Acquisition, Property	Only acquisitions of secured property	1099-A (04)
2112	Acquisition, Rights of Way	Only acquisition of secured property	1099-A (04)
2113	Acquisition, Waterways & Improvement	Only acquisition of secured property	1099-A (04)
2131	Site Improvements	Exclude pmts totally for materials	1099-MISC (07)
2132	Site Preparations	Exclude pmts totally for materials	1099-MISC (07)
2197	Late Pmt Penalties for Prop. & Improvement	For pmts that are 1099-Reportable	1099-MISC (07)
2228	Educational & Cultural Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2238	Electronic & Photo. Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2248	Medical & Laboratory Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2258	Motorized Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2268	Office Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2278	Specific Use Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2288	Stationary Equip. Improvement	Exclude pmts totally for materials	1099-MISC (07)
2297	Late Pmt. Penalties for Equip.	For pmts that are 1099-Reportable	1099-MISC (07)
2311	Acquisition, Bridges	Only acquisitions of secured property	1099-A (04)
2312	Acquisition, Buildings	Only acquisitions of secured property	1099-A (04)
2313	Acquisition, Highways	Only acquisitions of secured property	1099-A (04)
2314	Acquisition, Water Ports	Only acquisitions of secured property	1099-A (04)
2321	Construction, Bridges	Exclude pmts totally for materials	1099-MISC (07)
2322	Construction, Buildings	Exclude pmts totally for materials	1099-MISC (07)
2323	Construction, Highways	Exclude pmts totally for materials	1099-MISC (07)
2324	Construction, Water Ports	Exclude pmts totally for materials	1099-MISC (07)
2327	Construction, Bridges, Highways Improvement	Exclude pmts totally for materials	1099-MISC (07)
2328	Construction, Buildings Improvement	Exclude pmts totally for materials	1099-MISC (07)
2397	Late Pmt. Penalties for Plant & Improvement	For pmts that are 1099-Reportable	1099-MISC (07)
3111	Bond Issuance Expenses		1099-MISC (07)
3112	Bond Issuance Fees		1099-MISC (07)